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ADJUSTMENT BEGINS IN THE DAIRY INDUSTRY

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A radio talk by Charles J. Brand, Coadministrator, Agricultural Adjustment Act, broadcast Monday, July 31, 1933, in the Department of Agriculture period, National Farm and Home Hour, by the NBC and a network of 48 associate radio stations

Friends of the Farm and Home Hour audience:

I am able to report to you today that the adjustment of the dairy business to the economic order in the United States will begin tomorrow noon. Last Saturday, on the recommendation of the Agricultural Adjustment Administration, the Secretary of Agriculture issued a license to milk distributors in the Chicago area, and approved a marketing agreement between producers and distributors for that area. The license becomes effective at 12:01 p.m. Tuesday, August 1st.

This step is one of the most far-reaching yet taken to increase the purchasing power of farmers producing a basic commodity. The Chicago agreement and license is the first of a series of actions which will eventually touch most of the important milk marketing areas in the country.

That is important news for agriculture. Last year, milk and its products returned to American farmers nearly one-fourth of their total income. Of course, the milk marketing agreements will directly affect only the part of the dairy business dealing with fluid milk and cream. But this is nearly half of the industry. So you can see that these milk marketing agreements will have an effect upon a tenth to an eighth or more of the income of American farmers.

For many weeks I have been in conference with the parties to this and other proposed agreements. From this background of first-hand knowledge of the situation, I shall select for you the most pertinent facts about the Chicago agreement so that you dairymen and consumers of dairy products may understand the meaning of this first move to better the buying power of our most important farm product -- milk.

The late Dr. W. J. Spillman who used to talk with you several times a week in these programs often called the dairy industry the balance wheel of American agriculture. He used to point with pride to its stability and comment on the wisdom of its leaders in working out the "base-and-surplus" method of keeping milk production in line with consuming demand in the areas around our cities. By the way, I suspect that this "base-and-surplus" plan for the dairy industry influenced Dr. Spillman's thinking when several years ago he worked out the first outlines of the domestic allotment plan for control of wheat production, some of the essential features of which wheat farmers are now working to put into effect under the Agricultural Adjustment Act.

But to return to the dairy industry. Before the depression its leaders had worked out the effective "base-and-surplus" plan of balancing supply and demand in the big city areas. During the early years of the depression this plan kept the industry on an even keel. But as the winds of disaster bore harder on the other lines of farming and business, men shifted into the dairy industry because

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it was so stable. Then came trouble on the big milk sheds and in the milk distributing business. For the past 18 months we have seen stability in the dairy industry displaced by milk strikes and price wars and suffering among dairy farmers. The consumer has failed largely to benefit by this chaos within the industry.

Dairy producers and distributors and consumers in the Chicago area were affected even more violently than people in other sections. The conditions there, though in many respects typical of conditions in other parts, were aggravated by a number of additional circumstances. Therefore, when the Agricultural Adjustment Act was passed, milk producers and distributors supplying Chicago were the first to come forward and ask for the help of the Government in removing their difficulties. When we see what their difficulties were, and how the milk licenses and marketing agreement for Chicago meet those difficulties, I think we can understand the promise that the Adjustment Act holds for the dairy business generally.

When the Chicago men came to us, they told us the story of their troubles. They said that until two years ago, the milk marketing machinery in the second largest fluid milk area in the country on the whole ran smoothly. More than 90 percent of the producers were organized into the Pure Milk Association. This association's members, operating on the "base-and-surplus" plan, kept the supply of milk balanced with the demand. They dealt with the organized distributors in a fair and just manner. The price paid producers gave them a fair return. Cost considered, the price charged consumers was not exorbitant.

As the depression deepened and it became harder for men to keep their business going, or as they found they had to find new means of making a living, the stability of the dairy business naturally attracted them. So there grew up a fringe of milk distributors at the edge of the organized industry. These distributors, dealing with farmers and country milk manufacturing plants around Chicago, brought in new supplies of surplus milk. Some of it came from men who had turned to dairying in order to get some cash when their other farm enterprises went into the red. Some of it from country milk plants which had no profitable outlet in manufactured form for all the milk their patrons were bringing them.

The new group of distributors with this new supply of milk did not account for more than one-tenth of the milk supply in Chicago and surrounding territory. But that was enough to wreck the carefully worked out plan of production control, start a whole string of sharp practices in the distributing business, and throw the dairy industry of the great interstate Chicago milk shed into chaos. The organized distributors felt they had to fight fire with fire. They cut prices to organized farmers last year; cut them ruinously. The farmers asked for an arbitration. Dr. Clyde King, who now is chief of the dairy section in the Adjustment Administration, went to Chicago and negotiated a new price agreement between the organized producers and the organized distributors. This agreement brought up prices to consumers by one cent a quart and gave producers two-thirds of a cent a quart increased return. It went into effect May 16th.

However, the organized producers and distributors realized that their new price structure was built on quicksand. Therefore, as soon as the Agricultural Adjustment Act was signed they were calling on us in Washington.

They had already worked out a marketing agreement under the provisions of the Act, and asked the Secretary to join with them in enforcing it. We held hearings. As the situation developed it became plain that the marketing agreement alone, while it would tend to stabilize the dairy business and eliminate sharp practice and price-cutting and provision of unsafe milk by the organized producers and distributors who proposed the agreement, still would not solve their problem. As before, the small minority who stayed outside the agreement might wreck it. Therefore, we finally found it necessary to recommend that the Secretary use his powers under the Act to license all distributors. It was believed that this would put everyone in the market on an even footing, assure the observance of rules of fair trade practice, the maintenance of fair prices, and protection of the consumer's milk supply.

The Secretary decided that licenses should be imposed, and issued the order last Saturday. As I have said, it goes into effect tomorrow.

Now I shall not discuss with this national farm audience the precise details of the Chicago Marketing agreement and distributor licenses. I shall simply give you the essential provisions. Knowing these essential provisions, you can see how the procedure of marketing agreements and licenses working out for Chicago will apply in the milk sheds where you sell or buy. Now here are the essential features of the Chicago licenses and agreement:

Every distributor big or little is placed under a blanket license. All must abide by the same rules of trade practice so that cut-throat competition is eliminated. All must pay the same price to producers for milk, and sell to consumers at the same price. All must buy from producers who have a base quota. You can see how that will prevent flooding the market with milk at times. But there is no thought of shutting a man out of the fluid milk producing business. The marketing agreement simply sets up a procedure by which he can obtain a base quota. Until he has gone through that procedure, that is, until the effect of his increased production upon the whole milk supply of Chicago is determined and known, he will not be able to rush milk upon the market and help wreck the price and throw his neighbors' business into chaos again.

Distributors must buy only milk complying with strict health requirements of the city of Chicago or of municipalities in the suburban area about Chicago. Wherever in this area there are no health requirements in effect, the city of Chicago requirements automatically apply. The distributors must maintain accounting systems which will accurately show the condition of their business and open these accounts to the Agricultural Adjustment Administration and supply it with information so that its agents will have the facts necessary to discharge their duties with respect to the license.

Summing up, then, the Chicago license and milk marketing agreement is so drawn as to keep the supply of milk in balance with the demand, maintain fair prices to producers and consumers, drive out unfair trade practices, and make certain that consumers get milk that is produced and handled under strict health requirements. In this connection, I may say that a representative of our Consumers' Counsel has been sitting in the hearings and conferences during the time of forming the marketing agreement, and that representatives of consumers' organizations in Chicago have appeared to endorse the principles of the marketing agreement.

Now you dairymen and distributors may say, "That is all very fine, but how are you going to see that everyone plays fair and abides by the terms of his license?" Well, the penalty for not abiding by the terms of the license is stiff. The real power given the Secretary by the Adjustment Act is not to grant a license but to revoke it. If he should find it necessary to revoke a license, and if the man from whom it was withdrawn continues in business, he is to be subject to a fine of not more than \$1,000 a day for each day he does business without a license. The producers and distributors are to set up agencies for self-enforcement of the provisions of the agreement and the license. They will be assisted by the staff of the Administration, and also probably by a legal representative of the Administration stationed in Chicago. This latter officer probably will be known as the license commissioner.

Now my time has expired. I know many of you dairymen listening want more complete, precise information. My best suggestion to you is that you get and study a copy of the Chicago license and marketing agreement. This has been printed by the Department. Ask for a copy of License No. 1 issued under the Agricultural Adjustment Act. This will be of especial interest to the dairymen in the milk sheds of Atlanta, Philadelphia, Detroit, Kansas City, Evansville, Ind., Baltimore, Boston, San Francisco, Los Angeles, Oakland, San Diego, St. Paul and Minneapolis. For all of these milk sheds marketing agreements already have been offered and hearings held.

As action is taken with reference to these and other milk sheds we shall notify you in this radio program and through the press.